

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Iron County Medical Care Facility</u>	County Iron
Audit Date 12/31/03	Opinion Date 2/19/04	Date Accountant Report Submitted To State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 67 West Michigan Avenue, Suite 500	City Battle Creek	State MI	ZIP 49017
Accountant Signature 			

Iron County Medical Care Facility

Financial Report
With Additional Information
December 31, 2003

Iron County Medical Care Facility

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Independent Auditor's Report

To the Iron County Family Independence Agency Board
Iron County Medical Care Facility

We have audited the balance sheet of Iron County Medical Care Facility (a component unit of Iron County, Michigan), as of December 31, 2003 and 2002, and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Iron County Medical Care Facility at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Facility adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as of January 1, 2003.

The accompanying financial statements do not present a Management's Discussion and Analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

February 19, 2004

Iron County Medical Care Facility

Balance Sheet

	December 31	
	2003	2002
Assets		
Current Assets		
Cash (Note 2)	\$ 346,834	\$ 1,009,945
Accounts receivable (Note 3)	703,738	545,977
Cost report settlements	75,000	75,000
Other current assets	<u>149,472</u>	<u>119,672</u>
Total current assets	1,275,044	1,750,594
Assets Limited as to Use (Note 2)	858,776	1,654,110
Property and Equipment (Note 4)	<u>7,559,286</u>	<u>7,792,785</u>
Total assets	<u>\$ 9,693,106</u>	<u>\$ 11,197,489</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 5)	\$ 121,061	\$ 114,658
Accounts payable	197,836	397,306
Construction payable	-	130,000
Accrued salaries and related taxes	457,709	477,691
Accrued sick and vacation pay	651,223	575,673
Accrued interest	27,774	25,000
Patient trust liability (Note 6)	28,426	28,302
Resident security deposits	7,000	-
Deferred revenue - Proportionate Share Program	<u>85,541</u>	<u>126,560</u>
Total current liabilities	1,576,570	1,875,190
Long-term Debt (Note 5)	3,761,195	3,867,962
Net Assets		
Invested in capital assets net of related debt	3,677,030	3,810,165
Restricted for debt service	275,311	331,883
Unrestricted	<u>403,000</u>	<u>1,312,289</u>
Total net assets	<u>4,355,341</u>	<u>5,454,337</u>
Total liabilities and fund balance	<u>\$ 9,693,106</u>	<u>\$ 11,197,489</u>

Iron County Medical Care Facility

Statement of Revenue, Expenses and Changes in Fund Balance

	Year Ended December 31	
	2003	2002
Operating Revenue		
Net patient revenue	\$ 10,791,342	\$ 8,921,010
Proportionate Share Program revenue	209,523	394,390
Other operating revenue	<u>27,233</u>	<u>22,534</u>
Total operating revenue	11,028,098	9,337,934
Operating Expenses		
Salaries	6,848,352	5,451,296
Other expenses	<u>5,219,736</u>	<u>4,268,861</u>
Total operating expenses	<u>12,068,088</u>	<u>9,720,157</u>
Operating Income (Loss)	(1,039,990)	(382,223)
Nonoperating Income (Expense)		
Interest expense	(215,714)	-
Interest income	55,522	52,695
Loss on disposal	<u>(18,814)</u>	<u>-</u>
Total nonoperating income (expense)	(179,006)	52,695
Transfers from Other County Funds (Note 8)	<u>120,000</u>	<u>330,684</u>
Increase (Decrease) in Net Assets	(1,098,996)	1,156
Net Assets - Beginning of year	<u>5,454,337</u>	<u>5,453,181</u>
Net Assets - End of year	<u><u>\$ 4,355,341</u></u>	<u><u>\$ 5,454,337</u></u>

Iron County Medical Care Facility

Statement of Cash Flows

	Year Ended December 31	
	2003	2002
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	\$ 10,603,781	\$ 8,852,037
Cash paid to employees and suppliers	(11,943,611)	(8,729,637)
Cash received from Proportionate Share Program	168,504	199,235
Other operating receipts	<u>27,233</u>	<u>22,534</u>
Net cash provided by (used in) operating activities	(1,144,093)	344,169
Cash Flows from Noncapital Financing Activities		
Patient trust liabilities	124	589
Resident security deposits	7,000	-
Transfers from other county funds	<u>120,000</u>	<u>330,684</u>
Net cash provided by noncapital financing activities	127,124	331,273
Cash Flows from Investing Activities		
Proceeds from sale (purchase) of investments	56,572	(331,883)
Interest received	<u>55,522</u>	<u>52,695</u>
Net cash provided by (used in) investing activities	112,094	(279,188)
Cash Flows from Capital Financing Activities		
Proceeds received on bonds	17,380	3,982,620
Principal payments on long-term debt	(117,744)	-
Interest paid on long-term debt	(215,714)	-
Purchase of property and equipment	<u>(180,920)</u>	<u>(4,241,836)</u>
Net cash used in capital financing activities	<u>(496,998)</u>	<u>(259,216)</u>
Net Increase (Decrease) in Cash	(1,401,873)	137,038
Cash - Beginning of year	<u>2,332,172</u>	<u>2,195,134</u>
Cash - End of year	<u><u>\$ 930,299</u></u>	<u><u>\$ 2,332,172</u></u>

Iron County Medical Care Facility

Statement of Cash Flows (Continued)

The details of cash at December 31, 2003 and 2002 are as follows:

	December 31	
	2003	2002
Current assets:		
Cash	\$ 346,834	\$ 1,009,945
Assets limited as to use:		
Cash	583,465	1,322,227
Total cash	<u>\$ 930,299</u>	<u>\$ 2,332,172</u>

A reconciliation of operating income (loss) to net cash from operating activities is as follows:

	Year Ended December 31	
	2003	2002
Operating income (loss)	\$ (1,039,990)	\$ (382,223)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation	395,605	287,885
(Increase) decrease in operating assets:		
Accounts receivable	(157,761)	(61,173)
Other assets	(29,800)	(7,800)
Increase (decrease) in operating liabilities:		
Accounts payable	(199,470)	315,849
Construction payable	(130,000)	-
Accrued liabilities	55,568	361,786
Accrued interest	2,774	25,000
Deferred revenue	(41,019)	(195,155)
Net cash provided by (used in) operating activities	<u>\$ (1,144,093)</u>	<u>\$ 344,169</u>

There were no noncash investing, capital or financing activities during the year ended December 31, 2003. The Facility recorded a construction payable of \$130,000, a noncash transaction at December 31, 2002.

Iron County Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 1 - Nature of Business and Significant Accounting Policies

The Iron County Medical Care Facility (Facility) is a component unit of the County of Iron, Michigan.

The Facility is a 200-bed, long-term medical care unit owned and operated by Iron County. Seventy-one beds were added via the purchase of Crystal Manor effective July 1, 2002. The Facility also operated a 25-bed assisted living unit, which opened in late 2002. It is governed by the Iron County Family Independence Agency Board. This Board consists of three members, two of whom are appointed by the Iron County Board of Commissioners, and one appointed by the Michigan Governor. Further, the Iron County Board of Commissioners approves the budget for the Facility.

The accounting policies of the Facility conform to generally accepted accounting principles as applicable to local governmental units. Because the Facility provides a service to citizens that is financed primarily by a user charge, the accounts of the Facility are accounted for as an Enterprise Fund, utilizing the full accrual method of accounting.

Basis for Presentation - The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, issued in June 1999. The Facility now follows the “business-type” activities reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the Facility’s financial activities. There was no impact to the net assets of the Facility in adopting GASB No. 34.

Enterprise Fund Accounting - The Facility uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Facility has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Assets Limited as to Use - Assets limited as to use consist of cash designated by the Family Independence Agency Board for future capital purchases and cash limited under the terms of the debt agreement.

Iron County Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Property and Equipment - All property and equipment are valued at historical cost. Donated assets are recorded at the fair market value at the time of the donation. Depreciation on such fixed assets is charged as an expense against the operations on a straight-line basis.

Sick and Vacation Pay - Sick and vacation pay are charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

Net Assets - Net assets of the Facility are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Net assets restricted for debt service consist of amounts deposited with a trustee as required by bond indentures. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Net Patient Revenue - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and bad debt write-offs during the year. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Approximately 92 percent of the revenue from patient services is received from the Medicare and Medicaid programs. The Facility has agreements with the Medicare and Medicaid programs to provide reimbursement to the Facility at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Facility's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows:

Medicare - Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Facility that are subject to review and final approval by Medicare.

Medicaid - Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates based on prior years costs.

Iron County Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretations. Management believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Proportionate Share Reimbursement Program - During the years ended December 31, 2003 and 2002, the Facility participated in this program sponsored by the State of Michigan.

In 2003, two transactions were completed. The first transaction in September was recorded in revenue in relation to the State fiscal year ended September 30, 2003. The second transaction in October was for the State fiscal year ending September 30, 2004 and therefore was recognized one quarter in revenue and three quarters in deferred revenue.

In 2002, two transactions were completed. The first transaction in September was recorded in revenue in relation to the State fiscal year ended September 30, 2002. The second transaction in October was for the State fiscal year ended September 30, 2003 and therefore was recognized one quarter in revenue and three quarters in deferred revenue.

Iron County Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 2 - Deposits and Investments

The Facility's deposits and investments are composed of the following:

	2003		2002	
	Cash	Assets Limited as to Use	Cash	Assets Limited as to Use
Deposits:				
County	\$ 281,205	\$ -	\$ 1,009,270	\$ -
Bank	64,954	583,465	-	1,322,227
Petty cash	675	-	675	-
Investments	-	275,311	-	331,883
Total	<u>\$ 346,834</u>	<u>\$ 858,776</u>	<u>\$ 1,009,945</u>	<u>\$ 1,654,110</u>

Cash - County Treasurer - These funds were under the control of the County Treasurer, who deposited these funds with a bank. It is impractical to determine the amount covered by federal depository insurance as these funds are only a portion of the entire County deposits.

Cash - Bank - The deposits are reflected in the accounts of the bank (without recognition of checks written, but not yet cleared, or of deposits in transit) at \$349,463 and \$535,824 at December 31, 2003 and 2002, respectively. The federal depository insurance coverage pertains to all the deposits of the County; hence, the specific coverage pertaining to the Facility's deposits is not determinable.

Investments - The Facility is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers acceptances and mutual funds and investment pools that are composed of authorized investment vehicles. The Facility's investments are categorized below to give an indication of the level of risk assumed by the entity at December 31, 2003 and 2002. Risk Category 1 includes those investments that meet any one of the following criteria:

- Insured
- Registered
- Held by the Facility or its agent

Iron County Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 2 - Deposits and Investments (Continued)

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the Counterparty's trust department (or agent) in the Facility's name. Category 3 includes investments held by:

- a. The counterparty or
- b. The counterparty's trust department (or agent) but not in the Facility's name.

2003	Category			Carrying Amount
	1	2	3	
U.S. government securities	<u>\$ -</u>	<u>\$ 222,195</u>	<u>\$ -</u>	\$ 222,195
Money market and mutual funds				<u>53,117</u>
Total investments				<u>\$ 275,312</u>
2002				
U.S. government securities	<u>\$ -</u>	<u>\$ 101,906</u>	<u>\$ -</u>	\$ 101,906
Money market and mutual funds				<u>229,977</u>
Total investments				<u>\$ 331,883</u>

The Facility routinely invests its surplus operating funds in money market and mutual funds. These funds generally invest in highly liquid U.S. governmental and agency obligations. Investments in money market and mutual funds are not insured or guaranteed by the U.S. government, but are registered with the SEC; however, management believes that credit risk related to these investments is minimal.

Iron County Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 3 - Accounts Receivable

The details of accounts receivable are set forth below:

	2003	2002
Patient receivables	\$ 724,142	\$ 886,955
Less allowances for uncollectible accounts	(16,635)	(22,504)
Less Medicaid interim payment advances	(3,769)	(318,474)
Patient accounts receivable, net	<u>\$ 703,738</u>	<u>\$ 545,977</u>

Note 4 - Property and Equipment

Cost of property and equipment and depreciable lives are summarized as follows:

2003	Depreciable Life-Years	2002	Additions	Retirements/ Transfers	2003
Cost:					
Land improvements	10-25	\$ 445,760	\$ -	\$ -	\$ 445,760
Building and improvements	10-40	8,988,607	110,003	-	9,098,610
Fixed equipment	4-20	1,010,359	34,510	-	1,044,869
Movable equipment	4-20	<u>1,488,367</u>	<u>36,407</u>	<u>(31,650)</u>	<u>1,493,124</u>
Total		11,933,093	<u>\$ 180,920</u>	<u>\$ (31,650)</u>	12,082,363
Accumulated depreciation:					
Land improvements		381,213	\$ 27,641	\$ -	408,854
Building and improvements		1,862,840	251,463	-	2,114,303
Fixed equipment		898,532	18,442	-	916,974
Movable equipment		<u>997,723</u>	<u>98,059</u>	<u>(12,836)</u>	<u>1,082,946</u>
Total		<u>4,140,308</u>	<u>\$ 395,605</u>	<u>\$ (12,836)</u>	<u>4,523,077</u>
Net carrying amount		<u>\$ 7,792,785</u>			<u>\$ 7,559,286</u>

Iron County Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 4 - Property and Equipment (Continued)

2002	Depreciable Life-Years	2001	Additions	Retirements/ Transfers	2002
Cost:					
Land improvements	10-25	\$ 445,760	\$ -	\$ -	\$ 445,760
Building and improvements	10-40	4,610,955	4,377,652	-	8,988,607
Fixed equipment	4-20	975,613	34,746	-	1,010,359
Movable equipment	4-20	1,300,621	187,746	-	1,488,367
Construction in progress		<u>228,307</u>	<u>-</u>	<u>(228,307)</u>	<u>-</u>
Total		7,561,256	<u>\$ 4,600,144</u>	<u>\$ (228,307)</u>	11,933,093
Accumulated depreciation:					
Land improvements		352,666	\$ 28,547	\$ -	381,213
Building and improvements		1,704,119	158,721	-	1,862,840
Fixed equipment		881,494	17,038	-	898,532
Movable equipment		<u>914,143</u>	<u>83,579</u>	<u>-</u>	<u>997,723</u>
Total		<u>3,852,422</u>	<u>\$ 287,885</u>	<u>\$ -</u>	<u>4,140,308</u>
Net carrying amount		<u>\$ 3,708,834</u>			<u>\$ 7,792,785</u>

During 2002, the voters of Iron approved a tax millage to construct a 71 bed addition to the existing Facility. During 2003, the County issued bonds to finance the estimated \$9 million cost of the project and the voter approved millage proceeds will be used to pay off the debt. Construction began in 2003 and the project is expected to be completed late in 2004 or early 2005. Upon completion of the project, the Facility will record on its books, the costs being accumulated by the Iron County Building Authority.

During 2002, the Building Authority completed construction of a 25 unit assisted living project. The total cost of the project was approximately \$4.5 million. The project was financed by a bond issue through the Iron County Building Authority of \$4.0 million with the remaining funds provided by the Facility.

Iron County Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 5 - Long-term Debt

To finance the assisted living project, the Facility entered into a capital lease arrangement with the County of Iron. The Facility will make lease payments to the County equal to the required principal and interest payments on the bonds acquired by the County. The bond yield is 5.44%, with a final maturity of November 14, 2022. Principal and interest are due semi-annually on May 14 and November 14.

A schedule of the changes in the Facility's noncurrent liabilities for 2003 and 2002 follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Amount Due Within One Year
2003	\$ 3,982,620	\$ 17,380	\$ (117,744)	\$ 3,882,256	\$ 121,061
2002	\$ -	\$ 3,982,620	\$ -	\$ 3,982,620	\$ 114,658

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

Year Ending December 31:	Capital Lease Obligations	
	Principal	Interest
2004	\$ 121,061	\$ 209,622
2005	127,902	202,781
2006	134,880	195,804
2007	142,316	188,366
2008	150,084	180,599
2009 to 2012	3,206,013	634,594
Total	\$ 3,882,256	\$ 1,611,766

During the year ended December 31, 2002, \$104,830 of interest was capitalized.

Iron County Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 6 - Patient Trust Fund

The State Department of Treasury requires facilities to administer and account for monies of patients. The patient trust liability on the balance sheet represents patient trust fund deposits at December 31, 2003 and 2002

Note 7 - Retirement Benefits

As disclosed in Note 1, the Facility is a component unit of Iron County. Iron County, including the Facility, participates in the Michigan Municipal Employees Retirement System. Michigan Municipal Employees Retirement System is an agent multiple-employer defined benefit pension plan that covers all employees of the County. The System provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. This information can be requested by writing to: County of Iron, Courthouse, 2 South Sixth Street, Crystal Falls, MI 49920.

The obligation to contribute to, and maintain, the System for these employees was established by negotiations with the County's competitive bargaining units and requires a contribution from the employee of 3%. The Facility's contribution requirement is actuarially determined and is equal to the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 10 years.

Facility contributions for the plan years December 31, 2002, 2001 and 2000 were \$451,426, \$399,765 and \$299,716, respectively.

Iron County Medical Care Facility

Notes to Financial Statements December 31, 2003 and 2002

Note 8 - Related Party Transactions

The Facility is related to Iron County, as disclosed in Note 1. The following are related party transactions with Iron County:

	2003	2002
Insurance paid to County	\$ 19,512	\$ 19,512
Transfers from other Iron County funds	\$ 150,000	\$ 330,684
Transfers to other Iron County funds	30,000	-
Transfers from other Iron County funds, net	\$ 120,000	\$ 330,684

Maintenance of Effort (M.O.E.) is a county obligation to the State of Michigan. Every month, the State bills the County, at a per diem rate, for each Medicaid patient day at the Facility. Expenses relating to M.O.E are not included in these financial statements as they are paid directly by the County out of voter approved millage funds.

Note 9 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Facility has purchased commercial insurance for workers' compensation claims, and participates in the County's insurance plan with the Michigan Municipal Risk Management risk pool for claims relating to general (including malpractice) and auto liability, auto physical damage and property loss claims.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the County.

The Facility is insured against potential professional liability claims under an occurrence-basis policy, whereby all claims resulting from incidents that occur during the policy period are covered up to insurance limits, regardless of when the claims are reported to the carrier. There are no known outstanding or pending claims at December 31, 2003.

Additional Information

To the Iron County Family Independence Agency Board
Iron County Medical Care Facility

We have audited the financial statements of Iron County Medical Care Facility for the years ended December 31, 2003 and 2002. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules on pages 17 – 21 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

February 19, 2004

Iron County Medical Care Facility

Combining Balance Sheet

	December 31			
	2003			2002
	MCF	Manor	Total	Total
Assets				
Current Assets				
Cash	\$ 543,933	\$ (197,099)	\$ 346,834	\$ 1,009,945
Accounts receivable	571,698	132,040	703,738	545,977
Cost report settlements	75,000	-	75,000	75,000
Other current assets	123,609	25,863	149,472	119,672
Total current assets	1,314,240	(39,196)	1,275,044	1,750,594
Assets Limited as to Use	858,776	-	858,776	1,654,110
Property and Equipment	7,544,062	15,224	7,559,286	7,792,785
Total assets	<u>\$ 9,717,078</u>	<u>\$ (23,972)</u>	<u>\$ 9,693,106</u>	<u>\$ 11,197,489</u>
Liabilities and Net Assets				
Current Liabilities				
Current portion of long-term debt	\$ 121,061	\$ -	\$ 121,061	\$ 114,658
Accounts payable	163,382	34,454	197,836	397,306
Construction payable	-	-	-	130,000
Accrued salaries and related taxes	351,917	105,792	457,709	477,691
Accrued sick and vacation pay	498,730	152,493	651,223	575,673
Accrued interest	27,774	-	27,774	25,000
Patient trust liability	28,426	-	28,426	28,302
Security deposits	7,000	-	7,000	-
Due to (due from)	(27,753)	27,753	-	-
Deferred revenue	85,541	-	85,541	126,560
Total current liabilities	1,256,078	320,492	1,576,570	1,875,190
Long-term Debt	3,761,195	-	3,761,195	3,867,962
Net Assets (Deficit)	4,699,805	(344,464)	4,355,341	5,454,337
Total liabilities and net assets	<u>\$ 9,717,078</u>	<u>\$ (23,972)</u>	<u>\$ 9,693,106</u>	<u>\$ 11,197,489</u>

Iron County Medical Care Facility

Combining Statement of Revenue, Expenses and Changes in Net Assets

	Year Ended December 31			
	2003			2002
	MCF	Manor	Total	Total
Operating Revenue				
Net patient revenue	\$ 8,358,830	\$ 2,432,512	\$ 10,791,342	\$ 8,921,010
Proportionate share revenue	209,523	-	209,523	394,390
Other operating revenue	21,026	6,207	27,233	22,534
Total operating revenue	8,589,379	2,438,719	11,028,098	9,337,934
Operating Expenses				
Salaries	5,285,133	1,563,219	6,848,352	5,451,296
Other expenses	4,083,489	1,136,247	5,219,736	4,268,861
Total operating expenses	9,368,622	2,699,466	12,068,088	9,720,157
Operating Income (Loss)	(779,243)	(260,747)	(1,039,990)	(382,223)
Nonoperating Income (Expense)				
Interest expense	(215,714)	-	(215,714)	-
Interest income	55,300	222	55,522	52,695
Loss on disposal	(18,814)	-	(18,814)	-
Total nonoperating income (expense)	(179,228)	222	(179,006)	52,695
Transfers from Other County Funds	120,000	-	120,000	330,684
Increase (Decrease) in Net Assets	(838,471)	(260,525)	(1,098,996)	1,156
Net Assets - Beginning of year	5,538,276	(83,939)	5,454,337	5,453,181
Net Assets (Deficit) - End of year	<u>\$ 4,699,805</u>	<u>\$ (344,464)</u>	<u>\$ 4,355,341</u>	<u>\$ 5,454,337</u>

Iron County Medical Care Facility

Combining Schedule of Net Patient Revenue

	Year Ended December 31			
	2003			2002
	MCF	Manor	Total	Total
Skilled Nursing Services				
Daily Room Charges				
Medicaid	\$ 6,727,482	\$ 2,346,092	\$ 9,073,574	\$ 7,623,716
Medicare	563,555	-	563,555	366,389
Private pay and other	566,640	219,968	786,608	713,220
Total daily room charges	7,857,677	2,566,060	10,423,737	8,703,325
Ancillary Charges				
Drugs charged to patients	98,132	-	98,132	80,994
Physical therapy	268,720	-	268,720	168,962
Medical supplies	6,369	-	6,369	40,755
Speech	12,125	-	12,125	8,760
Occupational therapy	85,080	-	85,080	121,320
Other	17,955	-	17,955	19,011
Total ancillary charges	488,381	-	488,381	439,802
Gross patient charges	8,346,058	2,566,060	10,912,118	9,143,127
Revenue Deductions				
Provision for contractual discounts	312,325	133,548	445,873	252,768
Net Skilled Nursing Revenue	8,033,733	2,432,512	10,466,245	8,890,359
Assisted Living Revenue	325,097	-	325,097	30,651
Net Patient Revenue	<u><u>\$ 8,358,830</u></u>	<u><u>\$ 2,432,512</u></u>	<u><u>\$ 10,791,342</u></u>	<u><u>\$ 8,921,010</u></u>

Iron County Medical Care Facility

Schedule of Operating Expenses – MCF

	Year Ended December 31			
	2003			2002
	Salaries	Other	Total	Total
Skilled Nursing				
Administration	\$ 542,292	\$ 364,423	\$ 906,715	\$ 859,187
Maintenance	193,208	320,183	513,391	490,921
Laundry	94,155	141,472	235,627	233,928
Housekeeping	272,733	39,573	312,306	314,644
Dietary	495,382	317,330	812,712	807,574
Pharmacy	-	131,221	131,221	103,083
Nursing	3,136,144	261,417	3,397,561	3,156,621
Physical therapy	137,257	7,726	144,983	106,850
Speech	-	7,467	7,467	5,440
Occupational therapy	-	38,286	38,286	54,544
Diversional therapy	166,306	20,867	187,173	152,212
Lab and X-ray	-	24,084	24,084	20,928
Medical services	-	23,000	23,000	16,500
Fringe benefits	-	1,844,018	1,844,018	1,655,153
Depreciation	-	280,290	280,290	269,583
Total skilled nursing	5,037,477	3,821,357	8,858,834	8,247,168
Assisted Living				
Assisted living expenses	247,656	149,354	397,010	100,791
Depreciation	-	112,778	112,778	18,302
Total assisted living	247,656	262,132	509,788	119,093
Total 2003	<u>\$ 5,285,133</u>	<u>\$ 4,083,489</u>	<u>\$ 9,368,622</u>	
Total 2002	<u>\$ 4,704,128</u>	<u>\$ 3,662,133</u>		<u>\$ 8,366,261</u>

Iron County Medical Care Facility

Schedule of Operating Expenses - Crystal Manor

	2003			2002
	Salaries	Other	Total	Total
Administration	\$ 129,828	\$ 152,999	\$ 282,827	\$ 107,351
Maintenance	35,921	128,532	164,453	62,111
Laundry	56,062	5,065	61,127	32,844
Housekeeping	98,534	13,867	112,401	54,387
Dietary	203,426	174,127	377,553	184,555
Nursing	966,726	76,638	1,043,364	518,214
Physical therapy	-	209	209	13
Speech therapy	-	99	99	-
Diversional therapy	72,722	2,656	75,378	35,536
Lab and X-ray	-	8,136	8,136	3,313
Medical services	-	14,565	14,565	6,000
Fringe benefits	-	556,817	556,817	324,572
Depreciation	-	2,537	2,537	-
Total 2003	<u>\$ 1,563,219</u>	<u>\$ 1,136,247</u>	<u>\$ 2,699,466</u>	
Total 2002	<u>\$ 747,168</u>	<u>\$ 581,728</u>		<u>\$ 1,328,896</u>